MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 1999

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DEBRA K. DAVENPORT, CPA
ACTING AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying financial statements of Maricopa County's Risk Management and Employee Benefits Trust Funds as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Maricopa County's Risk Management and Employee Benefits Trust Funds and are not intended to present fairly the financial position of the Proprietary Fund Types—Internal Service Funds of Maricopa County, Arizona, and the results of their operations and cash flows in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Maricopa County's Risk Management and Employee Benefits Trust Funds as of June 30, 1999, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of Maricopa County's Risk Management and Employee Benefits Trust Funds taken as a whole. Disclosure regarding the year 2000 issue is not a required part of the Funds' financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information; however, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the County's Risk Management and Employee Benefits Trust Funds are or will become year 2000 compliant, that the Funds' year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Funds do business are or will become year 2000 compliant.

Debbie Davenport
Auditor General

October 12, 1999

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MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Balance Sheets—Internal Service Funds
June 30, 1999

	Risk Management	Employee Benefits
Assets		
Current assets:		
Cash and cash equivalents-		
Risk management	$ 12,416,697	
Environmental insurance claims recovery	2,218,160	
Employee benefits		$ 1,372,037
Interest receivable	161,824	13,719
Other receivable		83,225
Due from other County funds		1,618,745
Prepaid insurance	678,714	2,000
Total current assets	15,475,395	3,089,726
Restricted assets:		
Investments held by trustee	2,363,476	
Total restricted assets	2,363,476	
Property, plant, and equipment:		
Building improvements		87,981
Machinery and equipment	79,812	72,626
Less: accumulated depreciation	(28,433)	(81,958)
Net property, plant, and equipment	51,379	78,649
Total assets	$ 17,890,250	$ 3,168,375
Liabilities and fund equity		
Liabilities:		
Accounts payable	$ 330,479	$ 32,056
Accrued liabilities		626,159
Employee compensation payable	106,260	61,922
Due to other County funds	3,012	1,355
Deposits held for others		164,095
Reported but unpaid claims:		
Auto liability	289,596	
General liability	13,729,969	
Workers' compensation	6,799,313	
Medical malpractice	8,489,060	
Auto physical damage	84,508	
Property	242,229	
Incurred but not reported claims:		
Auto liability	915,883	
General liability	3,476,663	
Workers' compensation	(144,501)	
Medical malpractice	6,889,298	
Employee medical		89,091
Disability		87,028
Total liabilities	41,211,769	1,061,706
Fund equity:		
Contributed capital	2,886,478	30,445
Retained earnings (accumulated deficit)	(26,207,997)	2,076,224
Total fund equity (deficit)	(23,321,519)	2,106,669
Total liabilities and fund equity	$ 17,890,250	$ 3,168,375

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Equity—Internal Service Funds
Year Ended June 30, 1999

	Risk Management	Employee Benefits
Operating revenues:		
Charges for services	$ 6,755,905	$ 1,214,680
Insurance recoveries	1,079,854	
County and employee premiums		40,134,625
Other	3,860	654
Total operating revenues	7,839,619	41,349,959
Operating expenses:		
Personal services	891,983	531,793
Supplies and services	730,336	199,167
Brokers' fees	39,000	
Consulting and management fees	82,348	185,567
Claims administration service fees	184,528	68,712
Legal expenses	3,547,286	
Claims and insurance:		
Auto physical damage claims paid	523,197	
Auto physical damage claims reported increase in estimate	8,901	
Auto physical damage IBNR claims increase in estimate	4,322	
Total auto physical damage	536,420	
Auto liability claims paid	630,272	
Auto liability claims reported decrease in estimate	(431,865)	
Auto liability IBNR claims increase in estimate	559,631	
Total auto liability	758,038	
General liability claims paid	2,150,774	
General liability claims reported increase in estimate	6,247,050	
General liability IBNR claims decrease in estimate	(660,092)	
Total general liability	7,737,732	
Workers' compensation claims paid	2,317,915	
Workers' compensation claims reported increase in estimate	2,490,494	
Workers' compensation IBNR claims decrease in estimate	(1,138,980)	
Total workers' compensation	3,669,429	
Medical malpractice claims paid	3,252,491	
Medical malpractice claims reported increase in estimate	3,242,069	
Medical malpractice IBNR claims increase in estimate	80,155	
Total medical malpractice	6,574,715	
Property claims paid	450,818	
Property claims reported decrease in estimate	(100,094)	
Property IBNR claims increase in estimate	97,530	
Total property	448,254	
Short-term disability claims paid		442,472
Medical claims paid		317,148
Environmental contingency	300,000	
General liability insurance premiums	436,685	
Workers' compensation insurance premiums	131,429	

See accompanying notes to financial statements. (Continued)

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Equity—Internal Service Funds
Year Ended June 30, 1999
(Continued)

	Risk Management	Employee Benefits
Individual blanket bonds	$ 23,806	
Unemployment claims	346,225	
Property insurance premiums	272,127	
Malpractice insurance premiums	565,386	
Depreciation	12,755	$ 25,676
Dental insurance		3,146,495
Health insurance		31,785,691
Life insurance		2,613,813
Mental health programs		1,076,525
Sightcare insurance		320,832
Other insurance		166,128
Total operating expenses	27,288,482	40,880,019
Operating income (loss)	(19,448,863)	469,940
Nonoperating revenues (expenses):		
Interest income	1,140,842	154,496
Loss on disposal of machinery and equipment		(9,379)
Net nonoperating revenues	1,140,842	145,117
Net income (loss)	(18,308,021)	615,057
Fund equity (deficit), July 1, 1998	(6,544,558)	1,491,612
Increase in contributed capital	1,531,060	
Fund equity (deficit), June 30, 1999	$ (23,321,519)	$ 2,106,669

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 1999

	Risk Management	Employee Benefits
Cash flows from operating activities:		
Operating income (loss)	$ (19,448,863)	$ 469,940
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	12,755	25,676
Net change in liability for incurred but not reported claims	(1,057,434)	(157,658)
Changes in assets and liabilities:		
Increase in:		
Other receivable		(83,225)
Due from other County funds		(1,383,171)
Prepaid insurance	(68,166)	
Accrued liabilities		626,159
Employee compensation payable	51,779	19,403
Due to other County funds	3,012	1,355
Deposits held for others		9,403
Liability for reported but unpaid claims	11,456,555	
Decrease in:		
Insurance recovery receivable	63,059	
Due from other governmental units		16,720
Due from other County funds	47,427	
Accounts payable	(431,348)	(114,404)
Use tax	(110)	
Liability for reported but unpaid claims		(159,490)
Net cash used for operating activities	(9,371,334)	(729,292)
Cash flows from noncapital financing activities:		
Cash transfers from other County funds	1,531,060	
Net cash provided by noncapital financing activities	1,531,060	
Cash flows from capital and related financing activities:		
Acquisition of machinery and equipment	(19,367)	(8,371)
Net cash used for capital and related financing activities	(19,367)	(8,371)
Cash flows from investing activities:		
Interest on investments	1,187,953	163,214
Proceeds from sale of investments held by trustee	5,645,707	
Purchase of investments held by trustee	(2,363,476)	
Net cash provided by investing activities	4,470,184	163,214
Net decrease in cash and cash equivalents	(3,389,457)	(574,449)
Cash and cash equivalents, July 1, 1998	18,024,314	1,946,486
Cash and cash equivalents, June 30, 1999	$ 14,634,857	$ 1,372,037
Noncash investing, capital and financing activities:		
Disposal of machinery and equipment		$ (40,163)
Elimination of accumulated depreciation related to disposals		30,784
Loss on disposal of machinery and equipment		9,379

See accompanying notes to financial statements.

NOTE 1 - Summary of Significant Accounting Policies

The County, in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund and declares itself self-insured. For financial statement presentation purposes, the Self-Insured Trust Fund is reported as Risk Management and Employee Benefits Trust Funds (Funds). The Funds' financial statements are prepared in accordance with generally accepted accounting principles, as set forth primarily in Governmental Accounting Standards Board (GASB) Statements No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and No. 30, *Risk Financing Omnibus*. A summary of the more significant accounting policies of the Funds follows.

A. Reporting Entity

The Self-Insured Trust Fund is under the direction of an administrator appointed by the Board of Supervisors of Maricopa County, Arizona. In addition, the trust is administered by no less than nine joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County, Arizona. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Funds remains with the County. The County is responsible for the management and operations of the financing of the uninsured risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and for certain health benefits (major medical and short-term disability) to eligible employees and their dependents.

B. Fund Accounting

The Funds apply only those applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Funds' accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on their available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

The Funds' financial transactions are recorded and reported as internal service funds since their operations are financed and operated in a manner similar to private business enterprises. The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges. The measurement focus of the Funds is on the flow of economic resources. With this measurement focus, all assets and all liabilities associated with the operations of the Funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Interfund transfers that would be treated as revenues or expenses if they involved parties external to Maricopa County are recorded in the appropriate revenue or expense account.

D. Cash and Cash Equivalents

Cash belonging to the County is placed in the custody of the Maricopa County Treasurer's Office. A.R.S. authorizes the County Treasurer to invest public monies in the State Treasurer's investment pool; interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, towns, school districts, and special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Cash and investments held by the County Treasurer consists of both County monies and monies of other entities not under the control of the County Board of Supervisors (i.e., primarily monies of the various school districts). However, the Treasurer has a fiduciary responsibility to administer all monies held in the County Treasury. The Treasurer invests, on a pooled basis, all cash not specifically invested for a fund or program. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on their average daily cash balance on a quarterly basis. Interest earned and not received prior to June 30, is recorded as interest receivable. The Funds' share of monies held with the Treasurer is reported at fair value.

For purposes of the statement of cash flows, cash and cash equivalents consist of the Funds' share of the pooled portfolio of specific investments and repurchase agreements purchased by the Maricopa County Treasurer's Office. The County considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Property, Plant, and Equipment

Property, plant, and equipment are capitalized at cost. Depreciation of property, plant and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of machinery, equipment, and building improvements range from 3 to 10 years.

F. Accounts Payable

Accounts payable consists of goods or services received but not paid at June 30.

G. Employee Compensation Payable

Employee compensation payable consists of payroll and payroll related costs incurred at June 30, personal time off (PTO) and a calculated amount of family/medical leave (FML) earned by employees based on services already rendered. Employees may accumulate up to 240 hours of PTO, but any PTO hours in excess of the maximum amount that are unused at year-end will be transferred to FML. FML benefits are used by employees for FML qualifying events and are cumulative but do not vest with employees and therefore, are not accrued. However, upon retirement, employees of the Funds with accumulated FML in excess of 1,000 hours are entitled to a $3,000 bonus. The amount of such bonuses is accrued in the liability of employee compensation payable.

H. Deposits Held for Others

Deposits held for others consist of employee flexible spending account contributions for health care and dependent care. The balance is comprised of excess of current plan year contributions over withdrawals and forfeitures since program inception.

I. Liability for Unpaid Claims

The Funds provide for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported.

The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs are dependent on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities cannot yield an exact result, particularly for liability coverage. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques for producing current estimates of actual claim costs, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Given the complexity of this estimating process, the ultimate liability may be more or less than such estimates indicate. Consequently, adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The County is liable for any single claim up to the self-insurance retention (SIR) or insurance deductible, whichever is applicable, and the excess of insurance limits. The following insurance deductibles, self-insurance retentions, and insurance limits were in effect during fiscal year 1998-99:

Policy Type	Deductible	SIR	Limit
General and auto liability		$ 1,000,000	$ 25,000,000
Excess general and auto liability	primary		25,000,000
Property liability	$ 100,000		680,250,000
Flood and earthquake liability	300,000		10,000,000
Boiler and machinery	100,000		50,000,000
Employee dishonesty	50,000		10,000,000
Theft and robbery	5,000		1,000,000
Computer and wire transfer fraud	50,000		10,000,000

Forgery alteration/property	$ 5,000		$ 1,000,000
Aviation (owner, landlord, and tenant – OL&T) premises	none		20,000,000
Excess workers' compensation		$ 250,000	Statutory
Self insurers guaranty bond	none		250,000
Medical malpractice		1,000,000	10,000,000
Excess medical malpractice	primary		15,000,000
Employee medical		75,000	No limit

Effective January 1, 1998, all employee medical benefits are provided through commercial insurance. The County is still liable for all claims filed per employee under the previous coverage up to the self-insurance retention.

Settled claims have not exceeded the above commercial insurance coverage limits over the past three years.

NOTE 2 - Due from Other County Funds

Due from other County funds for the Employee Benefits Trust Fund consists of insurance premiums withheld from County payroll incurred at year-end and not transferred prior to June 30, 1999.

NOTE 3 - Prepaid Insurance

Prepaid insurance for the Risk Management Trust Fund consists of $598,714 of prepaid broker services, workers' compensation, general and auto liability, property, blanket bonds, and malpractice insurance policies. The initial premiums for these policies are amortized pro rata over each policy or contract term using the consumption method. The remaining balance of $80,000 consists of prepaid deposits to the workers' compensation third party administrator.

Prepaid insurance for the Employee Benefits Trust Fund consists of prepaid deposits to the short-term disability third party administrator.

NOTE 4 - Investments Held by Trustee

Investments held by trustee consist of a one year U.S. Treasury note that matures on June 30, 2000, and is stated at cost, which approximates fair value. The investment was purchased by an outside financial institution and held by its trustee in the County's name. The investment is held as a performance bond for unfunded workers' compensation claims as required by the Industrial Commission of Arizona.

NOTE 5 - Liabilities for Unpaid Claims

Risk Management Trust Fund

Liabilities for unpaid claims are estimates determined by an independent actuary using the following actuarial methods: incurred loss development, paid loss development, frequency/severity, exposure/loss rate (incurred losses), and the exposure/loss rate (paid losses). Total liabilities are equal to the sum of:

1. Reported but unpaid claims (RBUC), which represent the estimated liability on reported claims established by the Risk Management department, and;

2. Incurred but not reported (IBNR) reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. IBNR, therefore, is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted 55 percent confidence level assuming a 5.268 percent annual rate of return on future investment income. The liabilities reported at June 30, 1999, for each insurable area follow:

Auto liability	$ 1,205,479
General liability	17,206,632
Workers' compensation	6,654,812
Medical malpractice	15,378,358
Auto physical damage	84,508
Property	242,229
Total	$ 40,772,018

The total estimates of unpaid claim liabilities of $40.8 million at June 30, 1999, increased by approximately $10.4 million from last year's balance of $30.4 million. The reasons for the $10.4 million increase in the estimates of unpaid claim liabilities are as follows:

- The increase in reserves was due to unanticipated increases in five general liability and two medical malpractice claims. These claims increased reserves by approximately $5 million.

- The additional increase in reserves for general liability and medical malpractice of approximately $4 million was related to the strengthening of the case reserves by the Maricopa County claims manager.

- The workers' compensation estimate increased by approximately $700,000. The majority of this increase related to the strengthening of the case reserve by the workers' compensation third party administrator.

- The actual losses paid during the fiscal year 1998-99 were approximately $700,000 lower than what had been anticipated at June 30, 1998. Consequently, the $700,000 was included in the June 30, 1999, estimates of unpaid claim liabilities.

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, and property claims follow:

	Balance July 1	Current-Year Claims and Changes in Estimates	Claims Payments	Balance June 30
1996-97	$44,688,650	$(8,941,802)	$(8,156,897)	$27,589,951
1997-98	27,589,951	10,949,249	(8,166,303)	30,372,897
1998-99	30,372,897	19,724,588	(9,325,467)	40,772,018

Employee Benefits Trust Fund

The liability for medical and short-term disability claims as shown below is based on the fiscal year 1996-97 actuarial report and claims paid in fiscal years 1997-98 and 1998-99. Effective January 1, 1998, all employee medical benefits are now provided through commercial insurance. The County is still liable for claims filed under the previous medical coverage.

Accrued actuarial liabilities at June 30, 1999, for each insurable area follow:

Medical	$ 89,091
Short-term disability	87,028
Total	$ 176,119

Changes in the liabilities for unpaid medical and short-term disability claims follow:

	Balance July 1	Current-Year Claims and Changes in Estimates	Claims Payments	Balance June 30
1996-97	$4,738,484	$17,035,602	$(18,109,780)	$3,664,306
1997-98	3,664,306	7,175,112	(10,346,151)	493,267
1998-99	493,267	442,472	(759,620)	176,119

NOTE 6 – Increase in Contributed Capital

Effective July 1, 1998, Maricopa County closed the Environmental Cleanup Fund, a special revenue fund, and transferred the residual equity to the Risk Management Trust Fund. Activity for environmental insurance claims recovery is now accounted for in the Risk Management Trust Fund. Accordingly, the residual equity transfer from the Environmental Cleanup Fund is reported as an increase in contributed capital in the Risk Management Trust Fund.

NOTE 7 – Fund Deficit

The County Board of Supervisors has elected not to fund the Risk Management Trust Fund's unpaid claims. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for the last four fiscal years. This resulted in a fund deficit of $23,321,519 at June 30, 1999. Starting July 1, 1999, Risk Management began billing user departments for actuarially determined paid claim estimates.

NOTE 8 - Retirement Plan

Plan Description—The Funds contribute to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a publicly available financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active ASRS members' and the Funds' contribution rate. For the year ended June 30, 1999, active ASRS members and the Funds were each required by statute to contribute at the actuarially determined rate of 3.34 percent (2.85 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Funds' contributions to the System for the years ended June 30, 1999, 1998, and 1997 were $ 47,554, $47,517, and $37,647 respectively, which were equal to the required contributions for the year.

Supplementary Information

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Required Supplementary Information
Year 2000 Issue
June 30, 1999
(Unaudited)

Many of Risk Management and Employee Benefits Trust Funds' (Funds) electronic data processing systems and equipment items are subject to shortcomings related to the year 2000 that could adversely affect the Funds' operations. If not corrected, many programs and embedded chips would not be able to distinguish the year 2000 from the year 1900. This may cause them to process data inaccurately or to stop processing data altogether. The Funds are aware of this problem and have been taking corrective action since 1996.

Typically, efforts to address the year 2000 issue progress through the following four stages. However, the completion of these stages does not guarantee that the Funds' systems and equipment will be year 2000-compliant.

- Awareness – Establishing a project plan and budget for dealing with the year 2000 issue.
- Assessment – Identifying systems and equipment that are critical to the Funds' operations.
- Remediation – Making changes to systems and equipment.
- Validation/testing – Testing the changes made to systems and equipment and reviewing the test results.

The Funds have identified 3 computer systems and electronic equipment groups that are critical to its operations. These mission-critical systems and equipment groups affect financial, liability claims, and payroll and payroll-related aspects of the Funds' operations. The Funds have completed the validation/testing stage for all its mission-critical systems and electronic equipment groups.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Funds are or will be year 2000 ready, that the Funds' remediation efforts will be successful in whole or in part, or those parties with whom the Funds do business will be year 2000 ready.